



THE
Consumers' Gas
COMPANY

125th Annual Report

for the year ended September 30,

1973





Oakah L. Jones
1901-1973

Oakah Jones joined Consumers' Gas in 1954 as Vice-President and General Manager, when the Company faced a new era of expansion with the introduction of natural gas to Eastern Canada.

His creed as a businessman and citizen, one of sincere concern for the customer, employee, shareholder and community, left an indelible mark on this organization.

This Company, and indeed this country, will long remember the contributions he made throughout his career.

Directors and Officers

Directors

J. Douglas Gibson, O.B.E.*

Chairman of the Board – The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Companies, Eddy Match Company Limited
Director – Home Oil Company Limited, The Imperial Life Assurance Company of Canada, Harding Carpets Limited, Steel Company of Canada Limited, Bell Canada, National Trust Company Limited, Moore Corporation Limited, Northern Electric Company Limited
Chairman of the Board of Trustees of Queen's University
Member of the Ontario Economic Council

J. C. McCarthy*

President and Chief Executive Officer – The Consumers' Gas Company
Chairman of the Board and Managing Director – Cygnus Corporation Limited
Director – Home Oil Company Limited, The Toronto-Dominion Bank

J. K. Macdonald*

Chairman of the Board – Confederation Life Insurance Company
Director – Canada Permanent Companies, The Dominion Insurance Corporation

A. R. Poyntz*

Chairman of the Board and Chief Executive Officer – The Imperial Life Assurance Company of Canada
Director – M.E.P.C. Canadian Properties Limited, Impco Properties Limited, The Investors Group

W. H. Zimmerman, Q.C.

President – Commonwealth and Regent Group of Funds
Director – Home Oil Company Limited, The Becker Milk Company Limited, Scythes & Company Limited, Inter-Provincial Diversified Holdings Ltd., Eaton Financial Services Limited

Hon. T. D'Arcy Leonard, C.B.E., Q.C.*

R. H. Carley, Q.C.

Partner – Carley, Lech, & Fitzpatrick, Solicitors
Director – Kesco Holdings Limited, Raybestos-Manhattan (Canada) Ltd.

Noah Torno, M.B.E.

Chairman of the Board – Jordan Valley Wines Limited
Director – Cygnus Corporation Limited, The Canada Trust Company, Cemp Investments (Ontario) Limited

D. B. Mansur, C.B.E.

Director – Royal Insurance Group, Markborough Properties Limited

Officers

J. D. Gibson

Chairman of the Board

J. C. McCarthy

President and Chief Executive Officer

G. W. Carpenter

Executive Vice-President and General Manager

A. G. S. Griffin*

Chairman of the Board – Home Oil Company Limited, Triarch Corporation Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company
President – Toronto & London Investment Company Limited
Director – Canadian Corporate Management Company Limited, Canadian Industries Limited, New Kingston Hotel Limited, Jamaica, Raymond International Inc., Houston, Texas, United Dominions Corporation (Canada) Limited, Victoria and Grey Trust Company, Waltec Enterprises Limited, National Film Board

H. E. Langford, Q.C.

Director – Home Oil Company Limited, The Dominion of Canada General Insurance Company, Empire Life Insurance Company, Ontario Hospital Association, Victoria and Grey Trust Company

G. W. Carpenter

Executive Vice-President and General Manager – The Consumers' Gas Company
Director – Home Oil Company Limited

R. S. Paddon

Partner – Zimmerman, Grant, Kelly, Paddon, Bennett & Worley, Solicitors

Orian Low, Q.C.

Low, Murchison, Burns, Thomas & Haydon, Solicitors

F. H. Newman

President – Newman Bros. Co. Limited

Charles S. MacNaughton

Chairman of the Board – Fry Mills Spence Limited
Director – Redpath Industries Limited, Canadian Cable Systems Limited, Laidlaw Transportation Limited
Chairman – Ontario Racing Commission

Ross F. Phillips

President and Chief Executive Officer – Home Oil Company Limited

G. D. Worley, Q.C.

Partner – Zimmerman, Grant, Kelly, Paddon, Bennett & Worley, Solicitors

*Executive Committee

J. B. Haslam

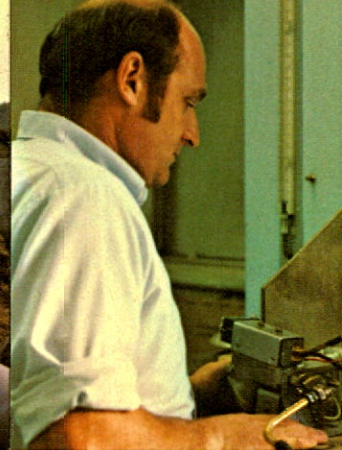
Secretary

E. W. H. Tremain

Treasurer and Assistant Secretary

K. J. Harry

Comptroller



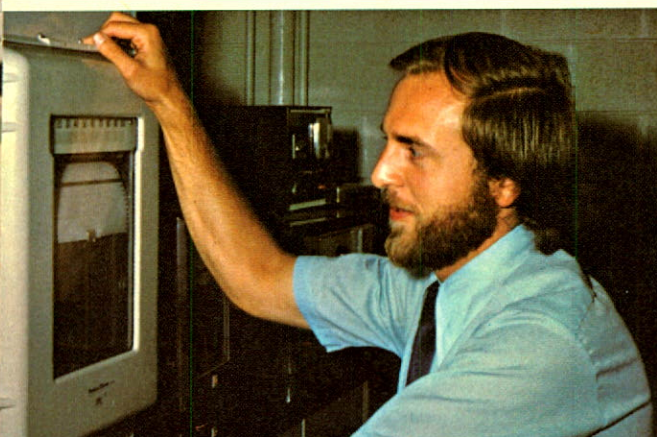
The Consumers' Gas Company

125TH ANNUAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 1973

Highlights

	1973	1972	% Increase
Gas sales revenues			
Residential	\$75,271,000	\$70,122,000	7
Commercial	\$62,603,000	\$55,178,000	13
Industrial and other	\$79,766,000	\$72,113,000	11
Gas sales — Mcf			
Residential	59,249,000	55,320,000	7
Commercial	73,794,000	65,969,000	12
Industrial and other	128,188,000	118,757,000	8
Number of active customers (Year end)			
Residential	406,596	391,270	4
Commercial	35,384	32,985	7
Industrial and other	5,415	5,295	2
Average use per residential customer—Mcf	143.2	141.0	
Average revenue per Mcf			
Residential	\$1.27	\$1.27	
Commercial	\$.85	\$.84	
Industrial	\$.62	\$.61	
Net income for the year available for dividends and reinvestment in the business	\$26,785,000	\$23,311,000	15
Basic earnings per common share (before extraordinary items)	\$1.39	\$1.28	9
Dividends paid per common share	\$.88	\$.88	—

See pages 32-35 for 10-year Financial and Operating Statistics.



Forward planning is essential to successful company performance. J. C. McCarthy, president and the late Oakah L Jones discuss such plans in one of their meetings during the year.



Report to the Shareholders

This is our 125th Annual Report. The end of our first century and a quarter was marked by major changes in the world energy situation which is having a noticeable impact on Canada.

It was also marked by the sudden loss of our former Chairman and Chief Executive Officer, Mr. Oakah L Jones. Mr. Jones' contribution to Consumers' Gas was substantial and remarkable. He launched the Company on its great period of growth which began when natural gas became available in Ontario. His leadership played an outstanding role in the development of the pipeline across Canada which opened the eastern markets for Alberta natural gas.

In the pages that follow, we endeavour to review our position in relation to the unfolding developments in the energy picture. The investing public has, during the past year, become concerned about a number of factors which could affect our industry. The adequacy of gas reserves and wellhead pricing have received a great deal of attention as has the risk that regulatory restrictions will prevent or delay the recovery by distributors of uncontrollable increases in the cost of gas purchased.

We have completed a satisfactory year which resulted from a continuation of the impressive growth in the area served by your Company and from our efforts to keep costs down. We believe that this growth will continue and that the shareholder will be rewarded with an equitable return on his investment in our Company.

During the year a substantial amount of time and effort has been spent in hearings before regulatory bodies. We have endeavoured to provide these governmental organizations with all the information they need and require. We must do an efficient job for our customers and to do so, those who provide us with the needed capital require a fair and competitive return. Every year, we must attract large amounts of capital to meet growing needs and to keep the system efficient. There is a similarity of interest between customers and shareholders which is not always appreciated, and we shall continue to do our best to serve them both.

Gas Supply

The topic of gas supply should be dealt with first because this appears to be an area which is usually misunderstood in the Canadian context. A great deal has been written in the past year about the energy crisis in the United States and many Canadians have taken this to mean that there is a similar shortage of energy in Canada. The fact is sufficient gas is available in Canada to supply Canadian requirements and it will be available for many years to come.

The Company's gas supply comes almost entirely from the Province of Alberta. Natural Gas is supplied by TransCanada PipeLines Limited under long term contracts it has with the Company. These contracts provide for increasing volumes through 1974 sufficient to meet the Company's anticipated growth requirements. In the normal course of events, provisions for increased volumes beyond 1974 would now be under negotiation. However, in an effort to increase the price of previously contracted for gas at the

wellhead, the Government of Alberta has to date refused to issue permits for additional volumes of gas to be removed from Alberta beyond those volumes covered by existing permits. While these issues influence the outlook for the industry, we are hopeful that they will ultimately be resolved in a manner fair to all, so as to compensate the producers sufficiently to encourage the necessary development of reserves and protect our customers against unreasonable price increases.

Realizing that the reserves in Alberta cannot continue indefinitely to supply our increasing requirements and that the future of your Company depends upon an adequate supply of gas at reasonable prices, Consumers' became a partner in the Canadian Arctic Gas Study Group. This consortium is examining the feasibility of building a natural gas pipeline from the Mackenzie Delta and Alaska to Alberta where it would connect with the facilities of TransCanada PipeLines and with facilities in the United States. The security of supply of gas in Canada for many years to come is largely dependent upon this pipeline which must be approved and built without undue delay.

Tecumseh Gas Storage Limited

A vital part of our gas supply operation is our ability to store natural gas at those times of the year when pipeline deliveries are surplus to our market requirements for subsequent use during the cold weather. Your Company, together with Imperial Oil Limited in 1962 established Tecumseh Gas Storage Limited to develop underground storage facilities in Southwestern Ontario. This venture has provided a means to minimize gas purchase costs while at the same time it contributes a measure of security against any short term deficiency in supply.

Regulatory Proceedings

In anticipation of substantial increases in the cost of gas supply which the Company cannot absorb, an application for a rate review was filed with the Ontario Energy Board early in 1973. The public hearings of the Consumers' case commenced on April 16, 1973 and to date has involved 22 days of testimony. The process includes a review of the Company's operations, the assets used in providing gas service to Ontario customers (the rate base) and a determination by the Board of a fair return which may be earned on that rate base. Consumers' has presented its case to the Board through the testimony of 16 of its employees and the following expert witnesses : W. A. Beckett of W. A. Beckett Associates Limited (the Economy) ; D. W. Ross, Vice-President, Acres Consulting Services Limited (Utility Economics) ; S. F. Sherwin, Vice-President, Foster Associates, Inc. (Rate of Return) ; A. S. Fell, President, Dominion Securities Corporation Harris & Partners Limited (Capital Markets) ; R. R. Bird, Treasurer, Stone & Webster Management Consultants, Inc. (Depreciation) ; J. B. Gillett, Manager of Valuation and Rates, Whitman, Requardt and Associates (Property Valuation) ; J. H. Lynch, Partner, Thorne Gunn

TransCanada PipeLines, the major supplier of natural gas to your company, increases transmission capabilities by installing additional pipeline facilities. Such activity near Oshawa, Ontario, below, is important to Consumers' Gas in serving markets east of Toronto.



Clean burning, efficient natural gas continues to be the ideal fuel for heating homes, large and small. In 1973, we served 406,596 residential customers, an increase of 3.9% over 1972, and 37.8% over ten years ago.



& Co. (Income Taxes) ; and M. C. Cermak, Senior Consultant, The Thorne Group Ltd. (Computers).

It is anticipated that the hearing to determine the Company's rate base and the allowable return thereon will conclude by the end of the year and that a decision from the Board will be released early in 1974. A further hearing may be required to consider the re-structuring of the Company's rate schedules for its residential, commercial and industrial customers in Ontario.

During the course of the Company's hearing, TransCanada PipeLines received permission from the National Energy Board to increase its rates to Ontario distributors effective June 1, 1973. To offset this increase in the cost of gas, the Ontario Energy Board permitted an increase of 2.3¢ per thousand cubic feet (Mcf) in the Company's rates on an interim basis, subject to refund or other adjustment should the Board find, in the pending applications for permanent rates before it, that Consumers' was not entitled to collect all or any part of such increase. The amount collected from customers under this Order and included in Gas Sales Revenue, but subject to refund or other adjustment, for the period June 1, 1973 to September 30, 1973 is \$271,000.

In addition to the rate increase which it received in June, TransCanada has recently received approval from the National Energy Board for further increases in its rates of 1.77¢ per Mcf effective September 1, 1973, and 5.23¢ per Mcf effective November 1, 1973. These increases, aggregating 7¢ per Mcf, will recover for TransCanada higher operating costs as well as higher wellhead prices which it must pay in the future. The resulting increase in the cost of gas purchased by Consumers' Gas will in 1974 exceed \$15 million. Your Company will recover these increases from certain of its customers under contracts which provide therefor in accordance with existing approved rate schedules and from the balance of its customers under Orders of the Ontario Energy Board made in accordance with its Reasons for Decision dated November 7, 1973. The increase in the Company's rates, aggregating 7¢ per Mcf, for certain contract customers and customers subject to the Board's Orders will commence on December 1, 1973. Where the increased charges are levied in accordance with the Board's Orders they are subject to refund or other adjustment should the Board find in the final disposition of the Company's Rates Application presently before it that the Company was not entitled to recover all or part of such increase. By delaying the date of the increase to December 1, Consumers' Gas effectively gives its customers the benefit of the cost of volumes of gas held in underground storage upon which the TransCanada increases did not apply.

In previous reports to shareholders your Company has indicated that it might not be able to maintain its favourable credit rating unless a method was established to permit timely recovery of increased costs of gas as well as other uncontrollable cost increases. Failure to maintain our financial stability would in turn impair the Company's ability to provide reliable gas service to the community. We are pleased and encouraged by the fact that during the year the Ontario Energy Board heard, reviewed and saw fit to grant the Company's applications for interim rate relief to offset three separate increases in

gas supply costs pending the Board's final decision in our Rates Applications. In this way, although the increases allowed are subject to possible refund, the Company's financial integrity is maintained.

Gas Sales

Despite the fact that the weather during the past year was significantly warmer than the previous year, our gas sales have improved by \$20,227,000. Total sales of \$217,640,000 compared to last year's figure of \$197,413,000 indicate a continuation of the popularity of natural gas which has developed over the past twenty years.

In excess of 24,000 new residential heating customers were added to the System during the year which is significantly higher than the number added in any previous year. Sales to commercial and industrial customers also continue to increase at satisfactory levels. The outlook for the coming years is for continuing high demand in all categories of sales. At the present time, there is a substantial saving to the average householder who uses natural gas for heating. Although considerably higher prices for gas at the retail level are anticipated, the competitive position of our product in the foreseeable future is not expected to be adversely affected since similar increases for other fuels appear inevitable.

Operations

To supply this continuing high demand, our distribution facilities must be increased correspondingly. Capital investment in these facilities amounted to \$48 million during 1973. This was spent for additional mains, services, meters, regulating stations and other equipment which are required in the distribution of our product. The cost of operating these additional facilities in the face of current inflationary pressures is becoming increasingly more difficult to offset by higher volume sales. We are constantly aware of the need to control all costs to ensure that the customer is getting the most for his money, but we cannot sacrifice high standards of service so necessary in our industry.

Société Gazifère de Hull, Inc. and St. Lawrence Gas Company, Inc.

In addition to its Ontario distribution operations, Consumers' Gas owns two gas distribution companies. Société Gazifère de Hull serves the area in and around the City of Hull, Quebec and St. Lawrence Gas Company Inc. serves the Massena-Ogdensburg area of Northern New York State.

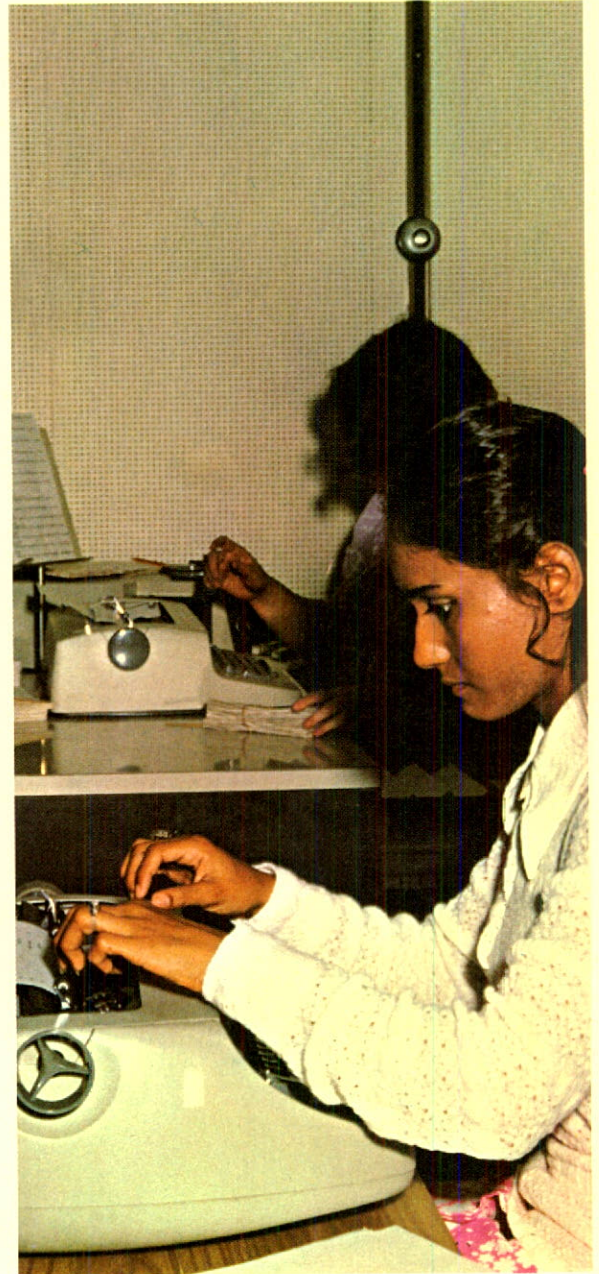
During the year the Quebec Electricity and Gas Board issued an order which permitted Société Gazifère to increase its rates to the extent of approximately \$180,000 per year. We are pleased with the operations of both these wholly owned subsidiaries which are showing consistent increases in sales and earnings.

The Victoria Park complex (top) is the headquarters for many of the company operations . . . gas supply, customer service, billing, construction, engineering, accounting, purchasing, sales and general administration.

The Barrie area office (bottom) recently completed provides modern working conditions for our employees which assists them to service our customers .



It takes many people, displaying a wide variety of skills and expertise, to assure continuing progress. On-going supervisory instruction and in-company training programs play an important part in maintaining high standards of performance, mutually beneficial to employees, the company, our customers, and shareholders.



Exploration and Development

The Company's exploration for gas and oil has continued to expand. Exploration and development expenses amounted to \$4.7 million during the year. A high level of activity on Lake Erie, where two drilling vessels were employed throughout the 1973 drilling season, resulted in new gas discoveries which will improve the Company's Ontario reserves. During the year, the Company drilled forty-two exploratory and development wells on its Lake Erie acreage of which twenty were successfully completed as gas wells.

In Southwestern Ontario the Company participated with others in the drilling of four exploratory wells one of which was completed as an oil well. Pursuant to an agreement with Sogepet Limited exploration work on lands in the James Bay Lowlands and in the Hudson's Bay area is being carried out.

The greatest increase in the Company's exploration activities came in Western Canada where it participated in conjunction with other companies in ten wells, one of which was completed as an oil well and five as gas wells.

Underwater Gas Developers, Consumers' subsidiary drilling company, operates its Lake Erie drilling vessels on Consumers' behalf. During the 1972-73 season, Underwater also achieved a marked increase in contract drilling for outside companies, including one well on the James Bay Lowlands and a number of wells in the States of Pennsylvania and New York.

Home Oil

Consumers' Gas on September 30, 1973 owned directly 276,788 Class "B" voting shares and 389,084 Class "A" non-voting shares of Home Oil Company Limited. Consumers' also owns 94.6% of the shares of Cygnus Corporation Limited which in turn owns 1,000,000 Class "B" shares of Home Oil. A summary of the acquisitions over the last three years is as follows ;

Fiscal year	Home Oil Shares		Cygnus Shares Class A and B	Cost to Consumers'
	Class A	Class B		
1971	—	—	1,416,829	\$20,696,957
1972	389,084	276,788	545,208	24,953,809
1973	—	—	1,891,892	15,382,611
Total	389,084	276,788	3,853,929	\$61,033,377

Note: Subsequent to September 30, 1973, Cygnus acquired from third parties, warrants to purchase 109,965 Class "A" shares of Home Oil.

Through these holdings Consumers' owns or controls 49.6% of the voting stock of Home Oil and participates in 20% of Home's earnings which are carried on the Consolidated Statement of Income on page 23 as 'Equity in Earnings—Home Oil Company

Limited'. The ownership of these shares is a result of a decision made in 1971 to extend the Company's operations into related fields. The acquisition of a major interest in Home Oil enabled us to participate more fully in the development of oil and gas activities in Canada and elsewhere at an accelerated rate over what would have been possible by building up similar acreage positions and proven production reserves at today's costs.

We are particularly pleased with the success which Home Oil has experienced in improving their level of earnings and cash flow in the past year. Net earnings of Home Oil for the nine months ended September 30, 1973 increased over the 1972 comparable period from \$7,671,000 to \$9,686,000 while cash flow increased to \$21,731,000. This improvement in earnings was principally a result of substantially higher crude oil prices which became effective during the current year and of significantly higher production from Home Oil's reserves. Home Oil has scheduled a very active exploration and development programme for the coming year. The nine month Interim Report for Home Oil is reproduced in this report on page 36 for the information of our shareholders.

Consulting

In the field of consulting, Consumers' Gas in consortium with a Brazilian Company, Natron Engenharia S.A., has been conducting a major study in Rio de Janeiro for the planning and feasibility of a major expansion of the existing gas distribution system in that city. Thirteen Consumers' employees have been involved in this work in Brazil for various periods of time. This consulting work is not only profitable to the Company, but the experience gained on such an assignment provides an added dimension to the development of our staff.

A number of executives and senior managers from the client Company, Companhia Estadual de Gas (CEG), have visited Consumers' Toronto offices for orientation and training seminars. It is expected that our association with CEG will continue as their plans for expansion are further developed.

Computer Operations

The Company is pursuing its computer activities through its wholly-owned subsidiary, Consumers' Computing Limited. Despite a marked increase in revenues the computer centre is not yet a contributor to the consolidated earnings of the Company. We are making every effort to correct this situation as quickly as possible.

In a related field, the operations of T-Scan Limited (60% of the common shares of which are owned by your Company) resulted in losses in 1973, however there are signs that improvements in sales could be experienced during the next twelve months. The T-Scan Terminal is operating satisfactorily in the Sao Paulo Stock Exchange and the terminal is in the process of being introduced into the ontrack betting industry in Germany.

The computer in the background of this modern office facility is the major factor in the smooth functioning of monthly billing to some 440,000 customers. It also provides capacity for other in-company data processing requirements, and for our subsidiary, Consumers' Computing Limited.



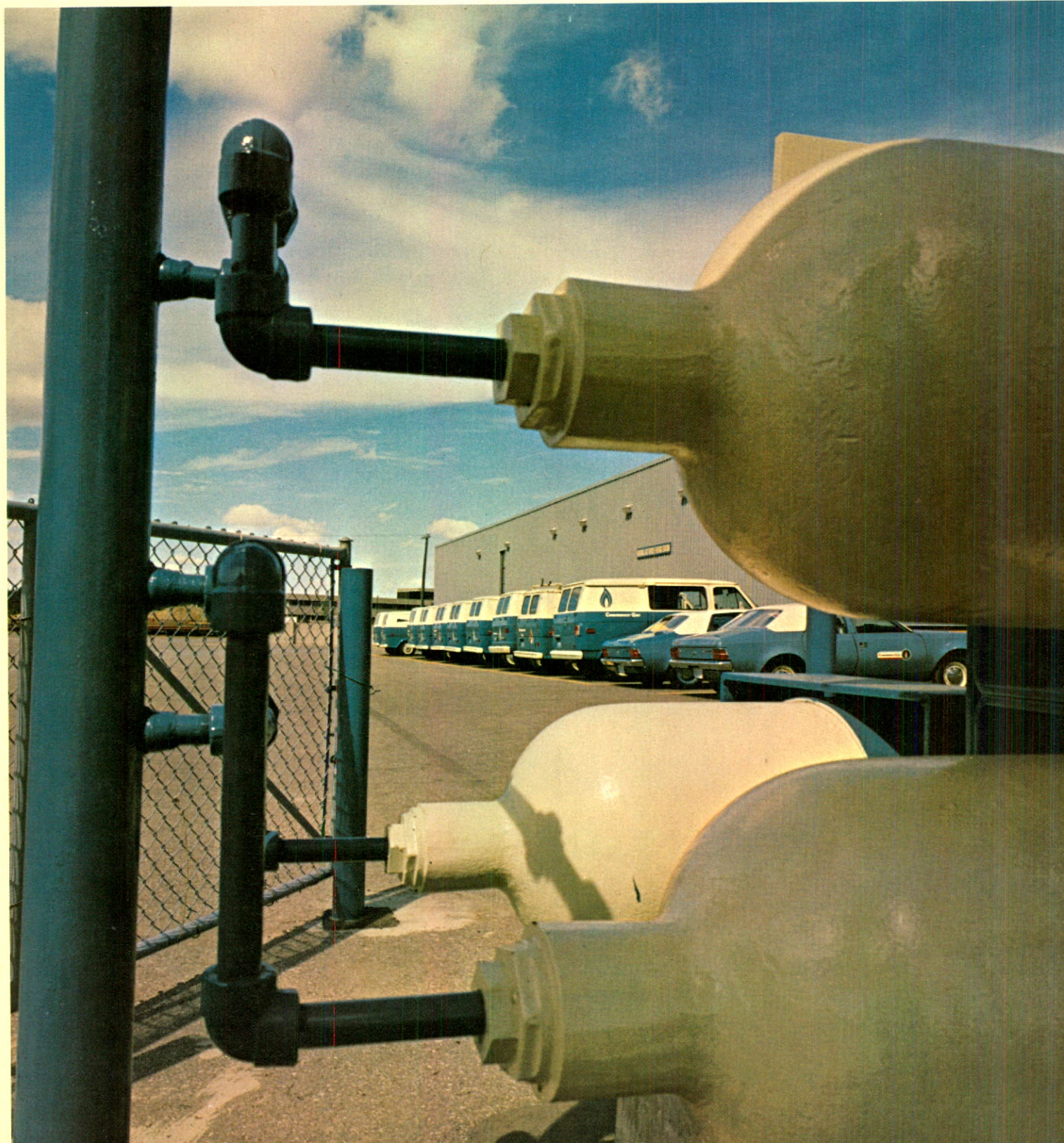
Real Estate

The real estate operations carried out by the Company's wholly-owned subsidiary, Consumers' Realty Limited, include investments in land in Whitby and in two joint land development ventures in Ottawa. It is anticipated that a satisfactory return will be realized on these investments.

Community Antenna Television Ltd.

Through Cygnus Corporation, the Company owns 37% of the shares of Community Antenna Television Ltd. which provides a cable television service to the southern part of the City of Calgary. The outlook for this company is encouraging.

A fleet of company vehicles at Victoria Park is framed by part of the facilities for our continuing research and experimental test program into the use of natural gas as a non-polluting fuel for motor vehicles.



Research and Development

During the past fiscal year, greater emphasis was placed on research and development projects in conjunction with The Institute of Gas Technology in Chicago and the Canadian Gas Association, aimed at conservation of energy and the protection of the environment. Two new projects were initiated to meet these objectives. One of them is designed to control emissions of nitrogen oxides and simultaneously reduce the specific fuel consumption in high-intensity combustion systems employed in industrial processes. The second project is designed to conserve energy for space heating by utilizing direct fired make-up air heaters.

The results of a research and development project have been utilized to develop a new design for domestic hot water heaters. A number of water heaters of this design are being manufactured for an intensive field test programme in specified parts of the country. Successful completion of this programme is expected to substantially improve the quality of hot water service to our customers.

Personnel

The success of any Company is the result of the efforts of a variety of individuals who collectively carry out the tasks of every day operations. Your Company employs approximately 2,500 people in many diverse functions ; engineers to plan extensions to the systems ; construction crews to install new mains and services ; salesmen to assist customers ; meter readers to determine how much gas is used ; clerical staff who participate in the preparation of the 440,000 bills which go out each month and who process the accounts when paid by the customers ; service men to service gas burning equipment used by our customers ; experts in exploration and development for oil and gas ; experts in the operations of computer facilities and in the many other functions which are necessary in a Company of this size. We believe our employees work in a dedicated fashion to provide a service to our customers and we are proud of them. In addition, the operations of Consumers' Gas creates a substantial number of jobs in the community in the manufacturing and production of the equipment and materials used by the Company, the contract work done for it by outsiders, and the usual indirect contribution which comes from many other products and services which we purchase.

Company employees comprising about 50% of the staff are represented by six locals of various unions. In the past year two contracts were renewed granting increased wages and benefits in line with general industry standards. Four other contracts will expire during 1974, two in January, one in April and the last in November, 1974.

Financial

Income before extraordinary items in 1973 of Consumers' Gas and its subsidiaries amounted to \$25,164,000, an increase of \$1,853,000 over 1972. Basic earnings per

common share before extraordinary items were \$1.39 as compared to \$1.28 in 1972, an increase of 8.6%. After taking into account the extraordinary items which occurred only in 1973 being the gain on sale of surplus land and the provision to write down the Company's share of Home Oil's investment in the Lockton Gas Plant, net income for the year available for dividends and reinvestment in the business was \$26,785,000.

As noted earlier, the weather during the year was 3.7% warmer than that of the previous year and we are, therefore, quite pleased to be able to report this increase in net income. Shareholders will note the substantial increase in equity in earnings accruing to your Company from its investment in Home Oil Limited which has been a large contributor to the improvement in earnings of Consumers' Gas.

The Company has adopted revised depreciation rates for its Ontario utility property commencing on October 1, 1972 in accordance with recommendations contained in a study completed by Stone & Webster Canada Limited in 1973. Depreciation rates and methods used by Consumers' Gas for this property are subject to the approval of the Ontario Energy Board which may or may not accept those recommended in the Stone & Webster Study. The required approvals are being sought by the Company in the Rate Case now in progress before the Energy Board. This change has increased depreciation and decreased net income for the year ended September 30, 1973 by \$850,000.

During the year the Company, through the issue of First Mortgage Sinking Fund bonds, raised \$60,000,000 at 8½%, \$15,000,000 (U.S. funds) at 8%, and \$20,000,000 at 8¼%. These funds were used to reduce short term debt and to finance in part the capital expenditure programmes which totalled \$53.1 million in the 1973 year.

Appointments

Mr. J. Douglas Gibson has recently been appointed to the position of Chairman of the Board of Directors of The Consumers' Gas Company. Mr. J. C. McCarthy has been appointed Chief Executive Officer in addition to his position of President of the Company and has also been appointed Chairman of the Board and Managing Director of Cygnus Corporation Limited. Mr. R. B. Coleman, a Vice-President of Home was appointed President of Cygnus.

During the year Messrs. Orian E. Low, Q.C. of Ottawa, Frederick H. Newman of St. Catharines and Ross F. Phillips of Calgary were appointed to fill vacancies of the Board of Directors. Mr. F. Warren Hurst, F.C.A., recently retired from the Board and from his position of Executive Vice-President and General Manager—Commercial Operations.

Mr. A. G. S. Griffin, a Director of the Company, has been appointed Chairman of the Board of Home Oil Company Limited, while Mr. Phillips was appointed President and Chief Executive Officer of that company.

The cafeteria at Victoria Park provides modern facilities and pleasant surroundings for company employees. Pleasant working conditions and first class facilities are helpful in recruiting better workers and vital in building and maintaining employee morale.



Metropolitan Toronto, one of the fastest growing centres in North America, viewed from this vantage point on top of the Toronto-Dominion Centre, exemplifies the progress taking place in the area served by the company. Keeping pace with such demands is a challenge to your company and a solid basis for continued corporate growth.



Outlook

1974 should be another productive year for Consumers' Gas. The growth of the communities served by the Company is such that capital expenditures estimated at approximately \$63 million will be made to expand our facilities and to continue our exploration and development programme for gas and oil. It is expected that the Ontario Energy Board will conclude its review of the Company's operations, and it is hoped that a national solution will be found to the field pricing problem which will permit the continued orderly development of our industry.

A handwritten signature in dark ink, reading "J. Douglas Gibson". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Chairman of the Board
November 9, 1973

A handwritten signature in dark ink, reading "John Garity". The signature is cursive, with the first name being more legible than the last name.

President and Chief Executive Officer



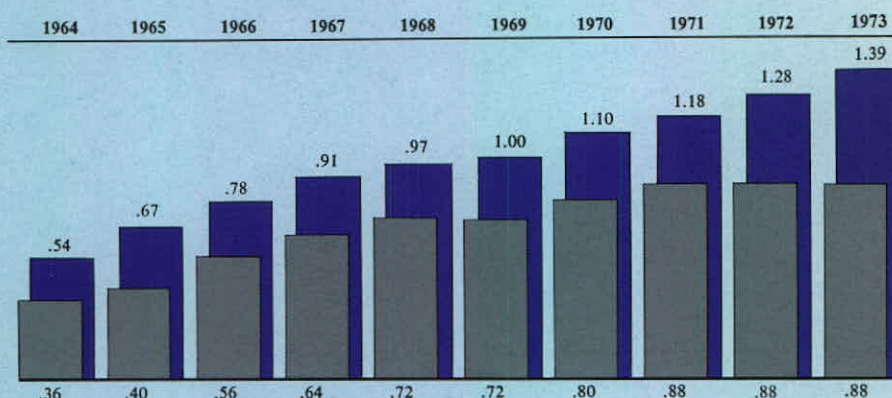
Financial Statements

September 30, 1973

The Consumers' Gas Company and subsidiary companies

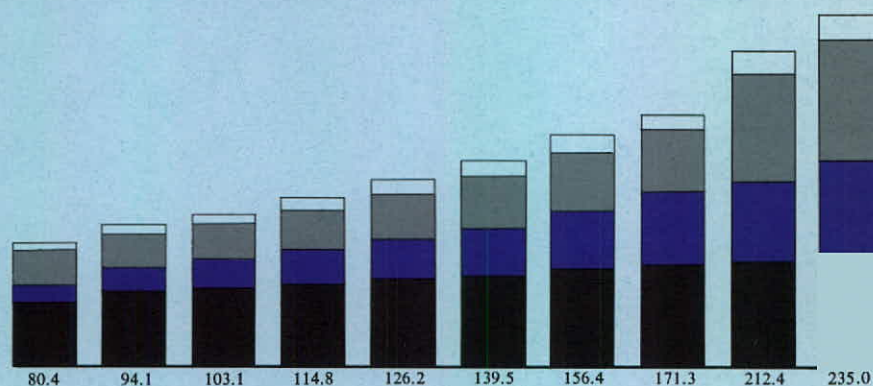
Earnings and Dividends
per Common Share (\$1.39 and \$.88)

Basic Earnings (before extraordinary items)
Current Annual Dividend Rate

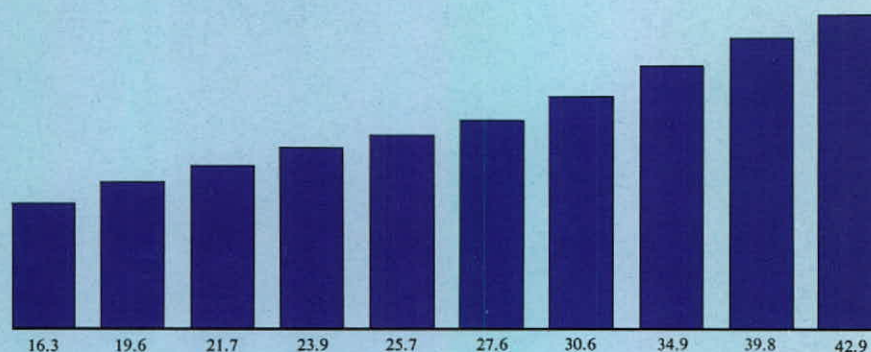


Revenues (\$234,970,000)

Other revenue
Industrial and other
Commercial
Residential

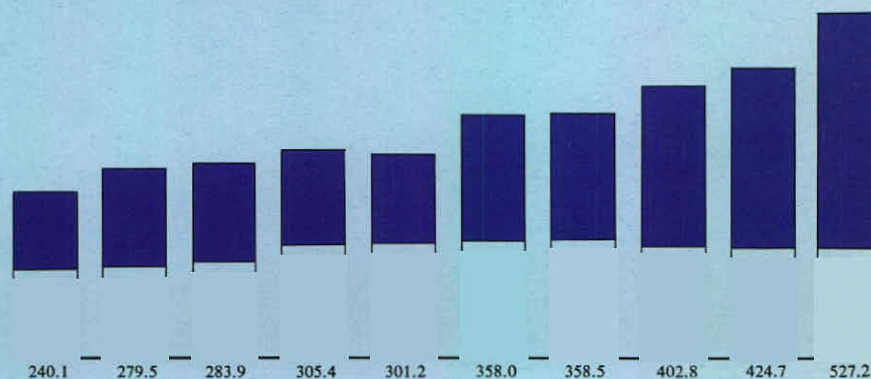


Cash Flow From Operations (\$42,918,000)



Capitalization (\$527,274,000)

Long Term Debt
Preference Shares
Common Equity



Consolidated Statement of Income

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

	Years ended	September 30
	1973	1972
REVENUE		
Gas sales (note 10)	\$217,640	\$197,413
Other	17,330	15,036
	<u>234,970</u>	<u>212,449</u>
COSTS AND EXPENSES		
Gas costs	127,425	115,596
Operation and maintenance	34,553	31,513
Depreciation and depletion	14,745	13,049
Municipal and other taxes	4,281	4,266
Interest and amortization—long term debt	22,985	15,878
Other interest.	1,995	2,865
	<u>205,984</u>	<u>183,167</u>
	28,986	29,282
Equity in earnings before extraordinary items (note 2)		
Home Oil Company Limited	2,382	915
Tecumseh Gas Storage Limited and other companies	1,051	876
Income before income taxes and extraordinary items	<u>32,419</u>	<u>31,073</u>
Income taxes (note 6)		
Current	3,316	4,368
Deferred	3,939	3,394
	<u>7,255</u>	<u>7,762</u>
Income before extraordinary items	25,164	23,311
Extraordinary items		
Gain on sale of surplus land	2,207	—
Share of provision in Home Oil Company Limited for write-down of investment in gas processing plant	(586)	—
Net income for the year available for dividends and reinvestment in the business	<u>26,785</u>	<u>23,311</u>
Dividends		
Preference shares	875	901
Common shares.	15,409	15,406
	<u>16,284</u>	<u>16,307</u>
Net income reinvested in the business	<u>\$ 10,501</u>	<u>\$ 7,004</u>
Basic earnings per common share (note 11)		
Income before extraordinary items	\$ 1.39	\$ 1.28
Net income	<u>\$ 1.48</u>	<u>\$ 1.28</u>

Consolidated Balance Sheet

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

ASSETS	September 30	
	1973	1972
CURRENT ASSETS		
Cash and deposits	\$ 1,573	\$ 2,177
Accounts receivable (including amounts receivable on merchandise finance plan, 1973—\$9,744, 1972—\$9,650)	28,679	26,420
Materials and supplies at the lower of cost and replacement cost	5,758	5,414
Gas stored underground at cost	23,003	14,605
Prepaid expenses	1,636	1,220
	<u>60,649</u>	<u>49,836</u>
INVESTMENTS (note 2)		
Home Oil Company Limited at equity in underlying net assets	38,488	34,943
Tecumseh Gas Storage Limited and other companies at equity in underlying net assets	7,630	5,931
Other quoted securities at cost	18,136	18,136
Sundry investments at cost	53	41
	<u>64,307</u>	<u>59,051</u>
PROPERTY, PLANT AND EQUIPMENT at cost or redetermined value (note 3)	549,692	506,172
Accumulated depreciation and depletion	82,639	77,005
	<u>467,053</u>	<u>429,167</u>
OTHER ASSETS AND DEFERRED CHARGES		
Mortgages receivable	8,276	7,122
Property held for resale and other assets at cost	2,453	2,353
Investment in Gas Arctic—Northwest Project Study Group (note 4)	1,572	—
Deferred gas costs (note 5)	7,263	3,560
Unamortized debt discount and expense	3,699	2,485
Other deferred charges	2,443	2,115
	<u>25,706</u>	<u>17,635</u>
 Approved by the Board: J. K. MACDONALD, <i>Director</i> J. C. MCCARTHY, <i>Director</i>		
	<u><u>\$617,715</u></u>	<u><u>\$555,689</u></u>

LIABILITIES	September 30	
	1973	1972
CURRENT LIABILITIES		
Bank borrowings	\$ 8,153	\$ 69,461
Notes payable	23,517	4,587
Accounts payable and accrued	26,951	22,639
Accrued interest on long term debt	6,207	3,025
Taxes payable	1,399	1,308
Dividends payable October 1	4,069	4,075
Funded debt payable within one year	1,807	1,121
	<u>72,103</u>	<u>106,216</u>
LONG TERM DEBT		
Funded debt (note 7)	345,362	255,822
Mortgages payable	1,725	1,289
Note payable 8½%, due January 1975	10,000	—
Bank indebtedness, secured	—	4,759
	<u>357,087</u>	<u>261,870</u>
DEFERRED INCOME TAXES (note 6).	16,224	12,285
MINORITY INTEREST IN SUBSIDIARY COMPANIES	2,114	12,482
SHAREHOLDERS' EQUITY		
Capital stock		
Preference shares (note 8)	16,012	16,320
Common shares (note 9)		
Authorized—75,000,000 shares without par value		
Issued —17,510,173 shares (1972—17,509,348 shares)	72,940	72,926
Contributed surplus	3,293	3,233
Excess of net redetermined value of property, plant and equipment over depreciated book cost (note 3).	15,024	15,761
Reinvested earnings	62,918	54,596
	<u>170,187</u>	<u>162,836</u>
	<u>\$617,715</u>	<u>\$555,689</u>

Consolidated Statement of Reinvested Earnings

The Consumers' Gas Company and subsidiary companies

(Expressed in Thousands)

	Years ended	September 30
	1973	1972
Balance at beginning of year	\$ 54,596	\$ 56,493
Net income reinvested in the business	10,501	7,004
Amounts realized through depreciation provisions, transferred from excess of net redetermined value of property, plant and equipment over depreciated book cost	309	349
	<u>65,406</u>	<u>63,846</u>
Deduct		
Excess of investment in shares over equity in underlying net assets at dates of acquisition		
Home Oil Company Limited (note 2)	—	7,938
Cygnus Corporation Limited and other subsidiaries (note 1)	4,665	1,312
Adjustment arising on conversion of debentures in		
Home Oil Company Limited	(2,177)	—
	<u>2,488</u>	<u>9,250</u>
Balance at end of year	<u>\$ 62,918</u>	<u>\$ 54,596</u>

Consolidated Statement of Source and Use of Funds

The Consumers' Gas Company and subsidiary companies

(Expressed in Thousands)

	Years ended	September 30
	1973	1972
SOURCE OF FUNDS		
Cash flow from operations	\$ 42,918	\$ 39,796
Issue of long term debt excluding mortgages payable.	104,728	32,000
Issue of common shares	14	212
Increase in mortgages payable, net.	436	382
Reduction in mortgages receivable and other assets, net	800	206
	<u>148,896</u>	<u>72,596</u>
USE OF FUNDS		
Net additions to property, plant and equipment	53,059	51,176
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	15,405	4,184
Investment in shares of Home Oil Company Limited.	—	21,070
Investment in shares of other companies	1,128	101
Investment in Gas Arctic—Northwest Project Study Group.	1,572	—
Deferral of increased cost of gas.	3,703	3,560
Reduction in non-current portion of long term debt excluding mortgages payable	9,947	6,616
Preference shares purchased for cancellation	248	377
Funded debt issue costs	1,503	600
Dividends on preference and common shares	16,284	16,307
Miscellaneous items	1,121	(384)
	<u>103,970</u>	<u>103,607</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	<u>\$ 44,926</u>	<u>(\$ 31,011)</u>

Notes to Consolidated Financial Statements

The Consumers' Gas Company and subsidiary companies

NOTE 1 COMPANIES INCLUDED

The consolidated financial statements include the accounts of The Consumers' Gas Company and all subsidiary companies since dates of acquisition. The investment in shares of Cygnus Corporation Limited and other subsidiaries exceeded the company's equity in underlying net assets by \$4,665,000 in 1973, and \$1,312,000 in 1972, all of which is allocable to goodwill and charged to reinvested earnings.

NOTE 2 INVESTMENTS

The company holds directly an 8% interest in the equity of Home Oil Company Limited and a further 12% interest in the equity of Home is held by Cygnus in which the company has a 94% (48% in 1972) equity interest. The companies follow the equity method of accounting for their investment in Home (which is effectively controlled), Community Antenna Television Ltd. (in which Cygnus has an interest of 37%) and in Tecumseh Gas Storage Limited and other companies 50% owned. This method reflects the company's interest in the earnings of such companies in the consolidated statement of income (in the case of Home after the Cygnus minority interest therein) and the investments in such companies are carried on the consolidated balance sheet at equity in underlying net assets. The company's investment in shares of Home exceeded the book value of underlying net assets at acquisition by \$7,938,000, all of which was allocable to goodwill and charged to reinvested earnings. Dividends received on investments for which the company follows the equity method of accounting amounted to \$1,313,000 in 1973 and \$1,143,000 in 1972.

Details of other quoted securities are as follows:

	Number of Shares	Cost	Quoted Market Value September 30	
			1973	1972
(Expressed in Thousands)				
The Consumers' Gas Company				
Union Gas Limited—common shares	700,000	\$ 12,846	\$ 7,088	\$ 9,275
Cygnus Corporation Limited				
Atlantic Richfield Company—common shares	50,000	5,290	4,763	3,281
		<u>\$ 18,136</u>	<u>\$ 11,851</u>	<u>\$ 12,556</u>

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment and related accumulated depreciation and depletion:

	1973		1972	
	Asset	Accumulated Depreciation and Depletion	Asset	Accumulated Depreciation and Depletion
(Expressed in Thousands)				
The Consumers' Gas Company and subsidiaries other than Cygnus				
Gas utility plant including distribution, transmission and underground storage facilities, land, structures, pipelines, permissions, equipment, etc.	\$521,784	\$ 77,249	\$480,764	\$ 71,296
Natural resource properties (mainly under Lake Erie) including wells, gathering lines and exploration and development costs	21,076	1,884	16,373	1,203
Drilling and related equipment	3,868	2,105	3,972	1,545
Income-producing real estate	258	2	2,289	1,679
Computer equipment.	340	221	424	313
Cygnus Corporation Limited and subsidiaries				
Plant and equipment	2,366	1,178	2,350	969
	<u>\$549,692</u>	<u>\$ 82,639</u>	<u>\$506,172</u>	<u>\$ 77,005</u>

Notes to Consolidated Financial Statements (continued)

The Consumers' Gas Company and subsidiary companies

All land, plant and equipment is stated at cost, with the exception of the remaining portion of gas utility plant and equipment acquired by the company prior to September 30, 1955 which is stated at a redetermined value of \$49,264,000 at September 30, 1973, based on reproduction cost according to an appraisal made by Stone & Webster Canada Limited as at September 30, 1955.

Accumulated depreciation at the date of the appraisal was based on estimated service life. Depreciation for subsequent years has been calculated on a straight line estimated service life basis using the stated values of depreciable assets.

The increase in the depreciated value of property, plant and equipment, resulting from the 1955 redetermination (less portions of such increase realized through disposals and depreciation provisions and adjustments for the years 1956 to 1973) has been included in shareholders' equity as excess of net redetermined value of property, plant and equipment over depreciated book cost.

The Company follows the full cost method of accounting for gas and oil operations whereby all costs of exploring for and developing gas and oil and related reserves, which to date have all been expended in Canada, are capitalized and form part of property, plant and equipment. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. These costs are depleted using the unit of production method based upon estimated recoverable reserves. Depreciation of all other plant and equipment is calculated on the straight line estimated service life basis.

The Company has adopted revised depreciation rates for its Ontario utility property effective October 1, 1972, in accordance with recommendations contained in a study completed by Stone & Webster Canada Ltd. in 1973. This change has increased depreciation and decreased net income in 1973 by approximately \$850,000. Depreciation rates and methods used by the Company for this property are subject to the approval of the Ontario Energy Board which may or may not accept those recommended in the Stone & Webster study. This approval is being sought in the Company's Gas Rates Application now before the Board.

NOTE 4 INVESTMENT IN GAS ARCTIC—NORTHWEST PROJECT STUDY GROUP

The company is participating along with other major gas and oil companies in a study to determine the feasibility of constructing a gas transmission pipeline from Northwest Canada and Alaska to markets in Canada and the United States.

If the project is determined to be feasible and the necessary regulatory approvals are received, the company's contribution might be converted to a share or other security interest in the permanent financing of the pipeline (pro-rata with other members of the study group); otherwise the investment will be written off to the extent that it is not recovered.

NOTE 5 DEFERRED GAS COSTS

The company agreed to pay TransCanada PipeLines Limited an additional 2.1¢ per mcf on gas delivered by it for use in Ontario for the period commencing January 1, 1972 until the effective date of the National Energy Board order fixing the rates to be charged by TransCanada. The date of this order upon which payments terminated was June 1, 1973. This agreement enabled TransCanada to finance the construction of additional pipeline facilities necessary to deliver the gas volumes required by the company in the future. In accordance with Accounting Order U.A. 11 made by the Ontario Energy Board, an amount of \$7,263,000 (\$3,560,000 at September 30, 1972), arising from the payments under this agreement, has been deferred in the company's accounts to be amortized in future years. The Ontario Energy Board has reserved for future consideration the appropriate treatment of the deferred gas costs and the amortization thereof in relation to the fixing or approval of just and reasonable rates which matter is before the Board in the Company's current Rates Application. The Company has proposed an amortization period of fifteen years commencing upon the implementation date of the permanent rates structure to be approved by the Board as a result of the Company's current Rates Application.

NOTE 6 INCOME TAXES

The companies follow the tax allocation basis of recording income taxes except in gas utility and like operations. In gas utility and like operations, where tax reductions arising from the differences in timing of deductions for income and for tax purposes continue to accumulate for many years, rate and revenue structures are designed not to recover deferred taxes in current revenues and accordingly deferred taxes are not recorded in the companies' accounts. Such deferred taxes not recovered in revenues and not recorded amounted to \$6,500,000 in 1973, \$5,900,000 in 1972 and to an accumulated amount of \$70,800,000 at September 30, 1973, which has been adjusted to reflect income tax filings and assessments to date.

The 5% investment tax credit granted by the Government of Ontario is based on investment in expansion of plant. For this reason, the company is deferring the reduction in corporate income taxes which it has received and is amortizing this tax reduction over a five year period to offset in part the cost of carrying such new investment during the first five years of customer build up and consequent lower return thereon. Accordingly \$415,000 has been reflected in income in 1973 (\$343,000 in 1972) and the remaining \$1,207,000 recorded to date is included in deferred income taxes to be amortized over future years.

Notes to Consolidated Financial Statements (continued)

NOTE 7 FUNDED DEBT

	<u>Maturity</u>	<u>Outstanding</u> <u>1973</u> (Expressed in Thousands)	<u>1972</u>
The Consumers' Gas Company			
First Mortgage Sinking Fund Bonds			
3¾% Series A	1974	\$ 4,500	\$ 4,579
5% Series B	1978	12,766	12,890
5½% Series C	1983	16,059	16,649
4.85% Series D (1973—U.S. \$13,250,000, 1972—U.S. \$13,650,000)	1985	14,224	14,653
8½% Series E	1993	60,000	—
8% Series F (U.S.—\$15,000,000)	1993	14,728	—
8¾% Series G	1994	20,000	—
Sinking Fund Debentures			
4¼%	1974	3,000	3,000
4¾%	1976	4,431	5,020
5¾%	1977	3,235	3,341
6½%	1979	6,550	6,963
6%	1981	9,693	10,240
5½%	1982	7,497	7,922
5¾%	1984	8,734	9,181
5¾%	1985	17,051	17,726
8½%	1991	50,000	50,000
8%	1992	32,000	32,000
Convertible Sinking Fund Debentures			
5½% (convertible into common shares at a conversion price of \$23.53 per share)	1989	59,998	59,998
St. Lawrence Gas Company, Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (1973—U.S. \$2,496,000, 1972—U.S. \$2,568,000)	1988	2,703	2,781
		<u>347,169</u>	<u>256,943</u>
Less payable within one year included in current liabilities		1,807	1,121
		<u>\$345,362</u>	<u>\$255,822</u>

The aggregate principal amounts of funded debt maturities and sinking fund requirements amount to approximately \$13,609,000 in 1975 and \$10,626,000 in 1976.

NOTE 8 PREFERENCE SHARES

Authorized

Group 1— 160,117 shares (1972—163,202 shares) of \$100 each, issuable in series

Group 2— 1,000,000 shares of \$100 each, issuable in series

Group 3—15,000,000 6½% convertible shares of \$14 each

Outstanding, Group 1

	<u>1973</u>		<u>1972</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
5½% cumulative Series A, redeemable at a premium reducing from 2% to 1%	44,901	\$ 4,490,100	46,126	\$ 4,612,600
5½% cumulative Series B, redeemable at a premium reducing from 3% to 1%	89,516	8,951,600	90,876	9,087,600
5% cumulative Series C, redeemable at a premium reducing from 4% to 1%	25,700	2,570,000	26,200	2,620,000
		<u>\$16,011,700</u>		<u>\$16,320,200</u>

A retirement fund for the purchase of each class of preference shares for cancellation is required to be maintained in the amounts of \$100,000 for the Series A shares, \$200,000 for the Series B shares, and \$60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts to the extent that this obligation has not been satisfied by purchase of preference shares for cancellation in prior years. At September 30, 1973 no balance remained in the retirement funds as they had been fully used to purchase preference shares for cancellation.

During the year, 1,225 Series A, 1,360 Series B and 500 Series C preference shares having an aggregate par value of \$308,500 were purchased for cancellation. The amount of \$60,000 by which the par value exceeded the purchase price of such shares is included in contributed surplus.

NOTE 9 COMMON SHARES

During the year, 825 common shares were issued on the exercise of share options for \$14,000 cash. 2,549,915 common shares are reserved for issue upon conversion of the 5½% convertible sinking fund debentures. Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1973, 801,117 shares had been issued under this plan and options are outstanding on 51,400 shares at \$17.55 per share, and 38,357 shares at \$14.07 per share. The last of these options expires on August 7, 1979. A total of 92 employees hold options under the Restricted Stock Option Plan.

NOTE 10 INTERIM RATE INCREASE

As a result of an Order of the National Energy Board issued to TransCanada PipeLines Limited, the supplier of substantially all of the gas requirements of the Company, the unit cost of gas to the Company increased by an aggregate of 2.3¢ per Mcf effective June 1, 1973. The Company received approval from the Ontario Energy Board for an interim increase in its existing rates of 2.3¢ per Mcf effective June 1, 1973, to recover from certain of its customers this additional cost of gas purchased by the Company and sold to them. In its Order the Ontario Energy Board made the interim increase subject to refund or adjustment should the Board in its final disposition of the Company's application presently before it, find that the Company was not entitled to recover all or any part of such increase. The amount included in 1973 revenue which may be subject to such refund or adjustment is \$271,000.

NOTE 11 EARNINGS PER SHARE

Earnings per share have been calculated on the weighted average number of shares outstanding during the year. Fully diluted earnings per share (assuming conversion of the convertible debentures and exercise of stock options) are as follows:

	1973	1972
Income before extraordinary items	\$1.29	\$1.20
Net income	\$1.37	\$1.20

NOTE 12 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Direct remuneration of directors and senior officers amounted to \$392,000 for 1973 and \$375,000 for 1972.

NOTE 13 PENSION PLAN LIABILITY

The estimated unfunded past service liability of the company and its subsidiaries according to an independent actuarial calculation made as at January 1, 1973 amounted to \$3,700,000 at that date based upon increased benefits to employees effective January 1, 1974. This obligation will be satisfied and charged to operations over 17 years in equal annual instalments. Annual contributions are made and charged to operations in the amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plan.

NOTE 14 CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The company has entered into an agreement whereby it agrees to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its Series A and Series B debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount sufficient to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenue to meet its obligations.

Gas sales revenues include \$271,000 which may be subject to refund or other adjustment (see note 10).

TransCanada PipeLines Limited has obtained Orders from the National Energy Board permitting it to increase its rates by 1.77¢ per Mcf effective September 1, 1973, and by an additional 5.23¢ per Mcf effective November 1, 1973. The Company will recover these increases in the cost of gas purchased aggregating 7¢ per Mcf from certain of its customers under contracts which provide therefor in accordance with existing approved rate schedules and from the balance of its customers under Orders of the Ontario Energy Board made in accordance with its Reasons for Decision dated November 7, 1973. To effect such recovery these customers will be charged an additional 7¢ per Mcf on all gas sold to them from December 1, 1973. The Ontario Board's Orders will provide that, where the increase is charged to the Company's customers in accordance with the Orders, it will be subject to refund or other adjustment should the Board find in the final disposition of the Company's application presently before it that the Company was not entitled to recover all or any part of such increase.

Subsequent to September 30, 1973, Cygnus Corporation Limited acquired from third parties, for \$3.6 million, warrants to purchase Class "A" shares of Home Oil Company Limited as follows: 76,975 shares at \$14.55 U.S. per share and 32,990 shares at \$17.66 U.S. per share, exercisable on or before April 30, 1980. Funds for this transaction are being obtained from the sale of a portion of Cygnus' investment in Atlantic Richfield Company.

Auditors' Report

Thorne
Gunn
& Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company and subsidiary companies as at September 30, 1973 and the consolidated statements of income, reinvested earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.
Chartered Accountants

Toronto, Canada
November 9, 1973

OFFICES THROUGHOUT CANADA AND ASSOCIATES THROUGHOUT THE WORLD

Years ended September 30

[illegible]

Condensed Consolidated Balance Sheet (\$000's)

ASSETS:										
Current assets	\$ 60,649	\$ 49,836	\$ 51,557	\$ 58,734	\$ 44,189	\$ 32,242	\$ 28,310	\$ 28,749	\$ 27,511	\$ 26,522
Investments	64,307	59,051	45,532	17,749	17,058	16,790	3,598	3,339	3,201	3,049
Property, plant and equipment	549,692	506,172	460,944	419,572	394,488	369,410	335,362	312,107	290,785	273,644
Accumulated depreciation and depletion	82,639	77,005	68,420	60,966	58,864	56,329	41,300	36,794	33,922	30,275
	467,053	429,167	392,524	358,606	335,624	313,081	294,062	275,313	256,863	243,369
Other assets and deferred charges	25,706	17,635	14,588	11,997	11,697	14,058	17,463	16,150	14,945	12,645
	\$617,715	\$555,689	\$504,201	\$447,086	\$408,568	\$376,171	\$343,433	\$323,551	\$302,520	\$285,585
LIABILITIES:										
Current liabilities	\$ 72,103	\$106,216	\$ 76,926	\$ 81,322	\$ 45,136	\$ 69,867	\$ 32,958	\$ 34,613	\$ 19,351	\$ 43,288
Long term debt	357,087	261,870	236,106	185,580	190,485	136,716	141,835	144,396	146,107	112,180
Deferred income taxes	16,224	12,285	8,891	6,529	5,389	5,109	5,055	5,006	3,653	2,152
Minority interest in subsidiary companies	2,114	12,482	15,549	727	—	—	—	—	—	—
Shareholders' Equity										
Preference shares	16,012	16,320	16,753	17,176	17,645	17,925	18,000	18,000	18,000	18,000
Common shares	72,940	72,926	72,712	72,578	72,418	72,371	72,257	53,216	52,985	52,813
Contributed surplus	3,293	3,233	3,195	3,136	3,025	2,980	2,977	2,977	2,977	2,977
Excess of net redetermined value of property, plant and equipment over depreciated book cost	15,024	15,761	17,576	17,925	18,498	20,606	25,704	26,236	26,767	27,299
Reinvested earnings	62,918	54,596	56,493	62,113	55,972	50,597	44,647	39,107	32,680	26,876
	170,187	162,836	166,729	172,928	167,558	164,479	163,585	139,536	133,409	127,965
	\$617,715	\$555,689	\$504,201	\$447,086	\$408,568	\$376,171	\$343,433	\$323,551	\$302,520	\$285,585
Consolidated Statement of Source and Use of Funds (\$000's)										
SOURCE OF FUNDS										
Cash flow from operations	\$ 42,918	\$ 39,796	\$ 34,938	\$ 30,602	\$ 27,572	\$ 25,695	\$ 23,892	\$ 21,721	\$ 19,632	\$ 16,315
Issue of funded debt	104,728	32,000	50,000	—	60,000	—	19,041	—	36,102	11,000
Issue of preference and common shares	14	212	134	160	47	114	991	231	172	3,118
Increase in mortgages payable, net	436	382	199	(49)	(1,163)	(720)	—	1,366	283	—
Reduction in mortgages receivable and other assets, net	800	206	(482)	(370)	2,545	2,505	(1,344)	(1,157)	(2,314)	(1,336)
	148,896	72,596	84,789	30,343	89,001	27,594	42,580	22,161	53,875	29,097
USE OF FUNDS										
Net additions to property, plant and equipment	53,059	51,176	43,569	33,051	33,087	31,476	26,542	25,468	19,858	25,001
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	15,405	4,184	20,558	338	—	—	—	—	—	—
Investment in shares of Home Oil Company Limited	—	21,070	—	—	—	—	—	—	—	—
Investment in shares of other companies	1,128	101	80	—	—	12,846	—	—	—	3,000
Investment in Gas Arctic—Northwest Project Study Group	1,572	—	—	—	—	—	—	—	—	—
Deferral of increased cost of gas	3,703	3,560	—	—	—	—	—	—	—	—
Reduction in non-current portion of long term debt excluding mortgages payable	9,947	6,616	5,073	4,856	5,068	4,399	3,552	3,077	2,458	2,013
Preference shares purchased for cancellation	248	377	423	469	280	75	—	—	—	—
Capital stock and funded debt issue costs, net	1,503	600	1,014	127	1,399	—	380	—	502	177
Dividends on preference and common shares	16,284	16,307	15,263	13,873	13,541	12,497	10,654	8,900	7,147	6,312
Miscellaneous items	1,121	(384)	1,590	(730)	(1,052)	(722)	236	(1,260)	(1,016)	(82)
	103,970	103,607	87,570	51,984	52,323	60,571	41,364	36,185	28,949	36,421
	\$ 44,926	\$ (31,011)	\$ (2,781)	\$ (21,641)	\$ 36,678	\$ (32,977)	\$ 1,216	\$ (14,024)	\$ 24,926	\$ (7,324)
Increase (decrease) in working capital position										

Financial and Operating Statistics - 1964-1973 (cont'd)

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Gas supply—MMCF										
Natural gas purchased	277,030	229,907	174,966	177,342	148,742	127,180	111,132	109,094	95,721	82,303
Natural gas produced	3,006	2,651	1,676	1,581	764	270	374	189	70	46
Total gas supply	<u>280,036</u>	<u>232,558</u>	<u>176,642</u>	<u>178,923</u>	<u>149,506</u>	<u>127,450</u>	<u>111,506</u>	<u>109,283</u>	<u>95,791</u>	<u>82,349</u>
Gas deliveries—MMCF										
Sales to customers										
Residential	59,249	55,320	53,465	51,568	46,942	46,326	43,270	40,885	38,883	32,184
Commercial	73,794	65,969	54,651	46,782	38,971	30,114	25,541	21,306	16,918	11,323
Industrial and other	128,188	118,757	70,548	63,110	57,939	49,124	45,323	41,213	38,203	36,277
Total sales	<u>261,231</u>	<u>240,046</u>	<u>178,664</u>	<u>161,460</u>	<u>143,852</u>	<u>125,564</u>	<u>114,134</u>	<u>103,404</u>	<u>94,004</u>	<u>79,784</u>
Gas into storage	46,612	32,399	26,186	40,908	24,039	22,256	16,305	18,093	17,096	13,973
Gas out of storage	(30,704)	(42,281)	(30,979)	(25,457)	(20,344)	(21,321)	(20,075)	(13,521)	(16,067)	(11,659)
Use by company	507	453	385	374	386	231	197	178	175	159
Unbilled and unaccounted for	2,390	1,941	2,386	1,638	1,573	720	945	1,129	583	92
Total gas deliveries	<u>280,036</u>	<u>232,558</u>	<u>176,642</u>	<u>178,923</u>	<u>149,506</u>	<u>127,450</u>	<u>111,506</u>	<u>109,283</u>	<u>95,791</u>	<u>82,349</u>
Maximum daily sendout MCF	1,257,600	1,148,300	977,900	855,300	739,800	719,800	616,500	524,200	489,700	416,600
Minimum daily sendout MCF	286,300	236,600	158,000	134,400	135,100	126,700	106,000	102,000	94,800	84,400
Average daily sendout MCF	724,000	662,000	497,100	447,900	399,500	346,600	315,800	286,900	259,600	219,300
Degree day deficiency (Note 2)	7,520	7,805	7,874	8,065	7,700	7,845	7,826	7,759	8,037	7,388
Number of active customers (year end)										
Residential	406,596	391,270	375,275	363,365	352,597	339,145	328,793	319,029	310,739	295,032
Commercial	35,384	32,985	30,755	28,428	26,342	24,503	22,569	20,837	18,530	17,190
Industrial and other	5,415	5,295	5,176	4,876	4,630	4,178	4,149	4,087	4,043	3,734
TOTAL	<u>447,395</u>	<u>429,550</u>	<u>411,206</u>	<u>396,669</u>	<u>383,569</u>	<u>367,826</u>	<u>355,511</u>	<u>343,953</u>	<u>333,312</u>	<u>315,956</u>
Cost to customers										
Average revenue per MCF										
Residential	\$1.27	\$1.27	\$1.26	\$1.26	\$1.27	\$1.27	\$1.28	\$1.28	\$1.29	\$1.33
Commercial	\$.85	\$.84	\$.85	\$.86	\$.87	\$.91	\$.93	\$.93	\$.96	\$1.07
Industrial and other	\$.62	\$.61	\$.63	\$.63	\$.62	\$.63	\$.63	\$.60	\$.59	\$.57
Average use per residential customer—MCF	143.2	141.0	141.7	141.0	132.8	135.8	130.8	126.8	125.2	110.5

Number of shareholders										
Common	28,026	29,895	26,168	27,255	26,526	25,205	25,477	22,757	21,589	18,886
Preferred	1,702	2,082	1,920	2,032	2,116	2,218	2,263	2,290	2,350	2,401
Basic earnings per common share										
Before extraordinary items	\$1.39	\$1.28	\$1.18	\$1.10	\$1.00	\$.97	\$.91	\$.78	\$.67	\$.54
After extraordinary items	\$1.48	\$1.28	\$1.18	\$1.08	\$1.00	\$.97	\$.91	\$.87	\$.72	\$.54
Fully diluted earnings per common share (assuming conversion of the convertible debentures and exercise of stock options)										
Before extraordinary items	\$1.29	\$1.20	\$1.11	\$1.04	\$.97	\$.97	\$.91	\$.78	\$.67	\$.54
After extraordinary items	\$1.37	\$1.20	\$1.11	\$1.02	\$.97	\$.97	\$.91	\$.87	\$.72	\$.54
Weighted average number of common shares outstanding during the year										
	17,509,896	17,506,093	17,490,886	17,476,077	17,468,215	17,460,727	16,527,768	15,847,870	15,823,785	15,789,116
Number of employees										
	2,550	2,379	2,322	2,377	2,221	2,142	2,166	2,053	2,081	2,150
Miles of mains in use										
	8,264	7,934	7,640	7,461	7,321	7,084	6,841	6,433	6,345	6,176
Population of area served										
	4,180,000	4,085,000	3,960,000	3,862,000	3,765,000	3,682,000	3,610,000	3,490,000	3,340,000	3,210,000
Gas costs to total gas sales revenue										
	59%	59%	54%	53%	53%	51%	50%	51%	50%	49%
Operation and maintenance costs to total revenue										
	15%	15%	16%	15%	15%	16%	17%	17%	19%	22%
Income before income taxes and extraordinary items to total revenue										
	14%	15%	17%	19%	19%	21%	20%	18%	16%	13%

Note: Degree day deficiency figures given are those for Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees daily mean fell below 65° on those days when it did so.

HOME OIL COMPANY LIMITED and subsidiary companies

INTERIM REPORT TO SHAREHOLDERS

for the nine months ended September 30, 1973

TO THE SHAREHOLDERS

Production, gross revenue, cash flow and net earnings continued at record levels for the third quarter in 1973 primarily as a result of higher market demand for crude oil and increased product prices.

Production of crude oil and natural gas liquids for the nine month period increased to 30,000 barrels per day after deduction of royalties, compared with 23,800 barrels per day during the same period of 1972. Natural gas sales rose to 106,000 Mcf per day compared to 102,200 Mcf per day a year ago.

Revenue gains derived from crude oil price increases have been partially offset by the higher royalty rates and the new mineral reserve tax in Alberta. During the nine month period, royalties and mineral taxes totalled \$6,801,000. In addition, current income taxes payable for the period are estimated at \$4,671,000 with a further \$262,000 being paid for pipeline and property taxes. The Company believes that Canadian crude oil prices must be allowed to align themselves to world crude oil prices. This is particularly true in light of the large capital outlays required for exploration in frontier areas, the increasing cost of replacing reserves and the strong demand for Canadian crude.

Home had an interest in 53 exploratory wells during the period ending September 30, 1973. This program resulted in one oil well, 7 gas wells and 34 abandonments with 11 wells still drilling. One of the natural gas discoveries located in Custer County, Oklahoma, was drilled on acreage farmed-in and follow-up drilling will commence in the near future to more fully evaluate the gas potential in the area.

In its continuing efforts to broaden its land holdings, the Company has entered into a joint venture with Panarctic involving part of Home's acreage on Ellef Ringnes Island with a part of Panarctic's holdings on Eglington Island, Amund Rignes Island and Ellesmere Island. A well is planned on this acreage during the winter drilling season. The Company previously announced that it had purchased Axel Heiberg Oil Company's interest in nine favourably located oil and gas exploration permits on Axel Heiberg Island.

The Company will earn a 6% interest in approximately 1,960,000 acres of offshore permits by participating in the drilling of a well on the Grand Banks offshore Newfoundland, with the option to earn a further 3% interest by participating in the drilling of a second well. The initial well is expected to start in December, 1973.

The marine seismic survey conducted offshore Oman, in the Sultanate of Oman, resulted in Home and its partners electing to drill an exploratory well to earn an interest in the concession. Drilling is expected to commence early in 1974.

In August, the Company called for redemption its 5½% Convertible Subordinated Debentures, due February 1, 1992. As a result \$24,815,000 of the \$25,000,000 principal amount outstanding was converted into 652,543 Class "A" shares of the Company. This has resulted in a substantial reduction in long term debt. Overall cash flow will be improved due to lower interest charges.

Subsequent to September 30, Home purchased from a number of Canadian institutional investors 216,650 shares of Scurry Rainbow Oil Limited. Payment for the shares consisted of \$1,507,000 and 75,000 Class "A" shares of the Company which the institutions have agreed to hold for investment. Home's interest in Scurry now consists of 475,850 shares, or approximately 18%.

A number of Senior Executive appointments were recently announced. Mr. R. F. Phillips, formerly Senior Vice-President, Finance was appointed President and Chief Executive Officer, and Mr. M. P. Paulson, formerly Senior Vice-President, Operations was appointed Executive Vice-President and General Manager. Mr. R. B. Coleman, formerly Vice-President, Secretary and General Counsel was named Senior Vice-President, and will continue his duties as Secretary and General Counsel.

There have been several changes in the Board of Directors since our last report. In August, Mr. R. F. Phillips and Mr. M. P. Paulson were appointed to the Board and more recently, Mr. A. G. S. Griffin and Mr. G. W. Carpenter were appointed Directors. On October 30, 1973, Mr. Griffin was elected Chairman of the Board.

It is with profound regret that the Company records the unexpected passing on October 8, 1973 of Mr. Oakah L. Jones, Chairman and Chief Executive Officer. His active interest in and constructive contribution to the Company will be greatly missed.



November 5, 1973
Calgary, Alberta

President and
Chief Executive Officer

CONSOLIDATED STATEMENT OF EARNINGS

For the Nine Months ended September 30, 1973
(\$000's omitted)

	1973	1972 As Adjusted (Note A)
REVENUE		
Operating revenue	\$ 36,057	\$ 25,737
Investment income	3,449	3,067
	<u>39,506</u>	<u>28,804</u>
EXPENSE		
Operating	5,722	3,944
General and administrative	3,127	3,171
Depletion	9,177	7,479
Depreciation	1,620	1,928
Interest and expense on long term debt	3,083	3,665
Other interest	36	245
	<u>22,765</u>	<u>20,432</u>
Net earnings before income taxes	16,741	8,372
PROVISION FOR INCOME TAXES	<u>6,760</u>	<u>3,411</u>
NET EARNINGS before extraordinary item	<u>9,981</u>	<u>4,961</u>
EXTRAORDINARY ITEM		
Gain (loss) on sale of investments	(295)	2,710
NET EARNINGS	<u>\$ 9,686</u>	<u>\$ 7,671</u>
BASIC EARNINGS PER SHARE		
Before extraordinary item	\$ 1.34	\$.67
After extraordinary item	1.30	1.04
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary item	\$ 1.33	\$.67
After extraordinary item	1.29	1.03
CASH FLOW	<u>\$ 21,731</u>	<u>\$ 14,373</u>
Per share	2.91	1.95

Note A

The Company has adopted, with retroactive effect, a policy of amortizing foreign exploration expenditures on a systematic basis. Previously such expenditures were deferred pending the results of exploration in progress in each area. This change in accounting had the effect of reducing net earnings for the nine months ended September 30, 1973 by \$1,514,000 (\$.20 per share). Net earnings after extraordinary item for the nine months ended September 30, 1972 previously reported as \$8,187,000 have been restated.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Nine Months ended September 30, 1973
(\$000's omitted)

	1973	1972 As Adjusted (Note A)
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash charges and credits	\$ 21,731	\$ 14,373
Issuance of capital stock	431	114
Sale of investments	3,191	7,946
Long term borrowings - net	—	24,500
	<u>\$ 25,353</u>	<u>\$ 46,933</u>
FUNDS WERE USED FOR		
Property, plant and equipment	\$ 16,221	\$ 9,576
Investment in Scurry- Rainbow Oil Limited	5,184	—
Repayment of long term debt	7,239	8,620
Net increase (decrease) in other non-current assets	846	(62)
Dividends	2,847	2,761
	<u>32,337</u>	<u>20,895</u>
Increase (decrease) in working capital	<u>(6,984)</u>	<u>26,038</u>
	<u>\$ 25,353</u>	<u>\$ 46,933</u>

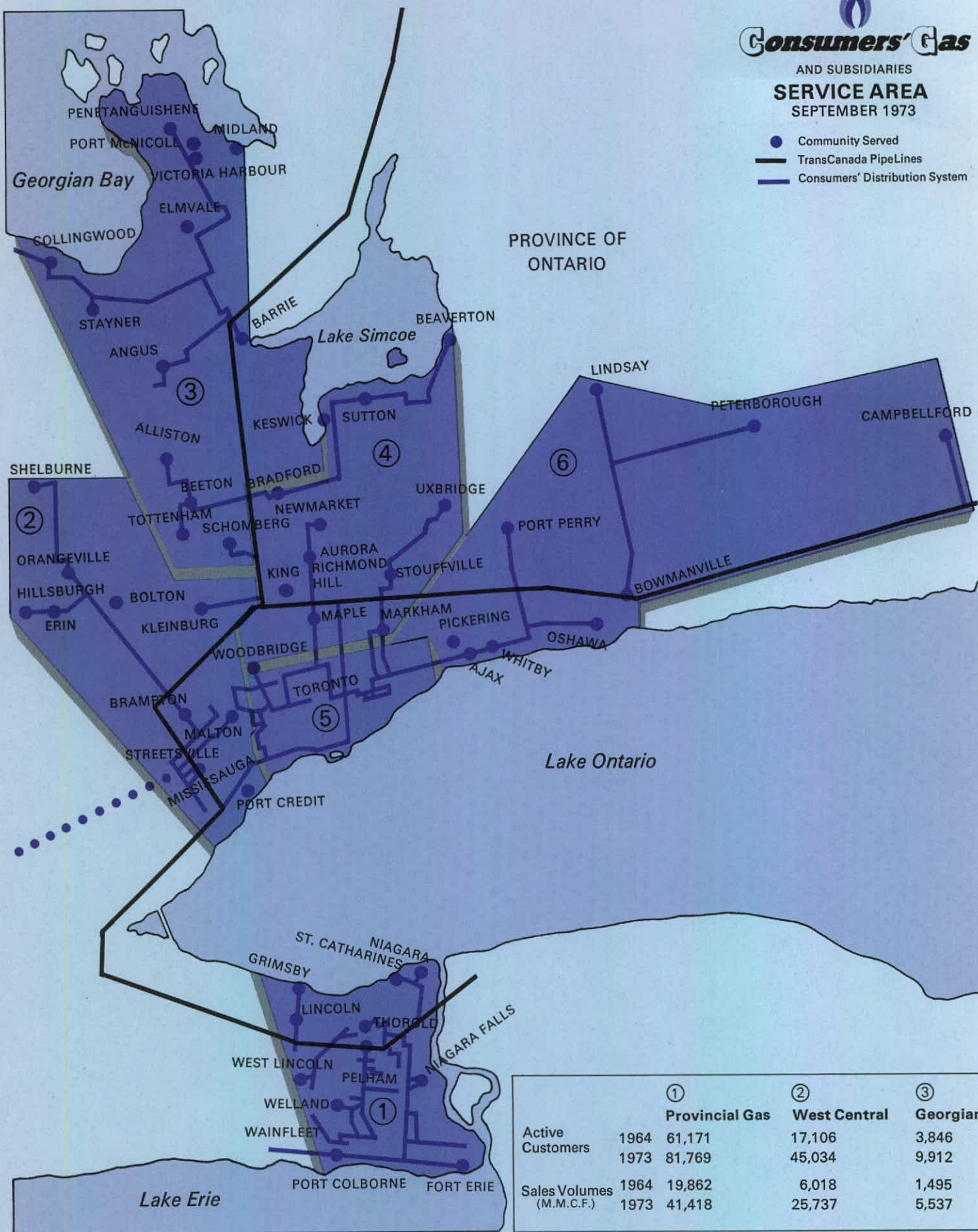
	1973	1972 As Adjusted (Note A)
MAJOR BALANCE SHEET ITEMS (\$000's omitted)		
Working capital (deficiency)	\$ (2,705)	\$ 3,942
Investments	73,127	72,463
Property, plant and equipment (net)	174,249	170,491
Long term debt (less current maturities)	34,861	72,139
Gas sales prepayment	1,506	1,680
Deferred income taxes	30,521	27,507
Capital and surplus	179,856	147,628

	1973	1972
PRODUCTION AND SALES		
Crude oil and natural gas liquids (barrels/day)		
Gross	35,500	28,700
Net	30,000	23,800
Natural gas (Mcf/day)		
Gross	121,100	111,400
Net	106,000	102,200
Sulphur (long tons)		
Gross	34,300	34,100
Net	30,600	30,300

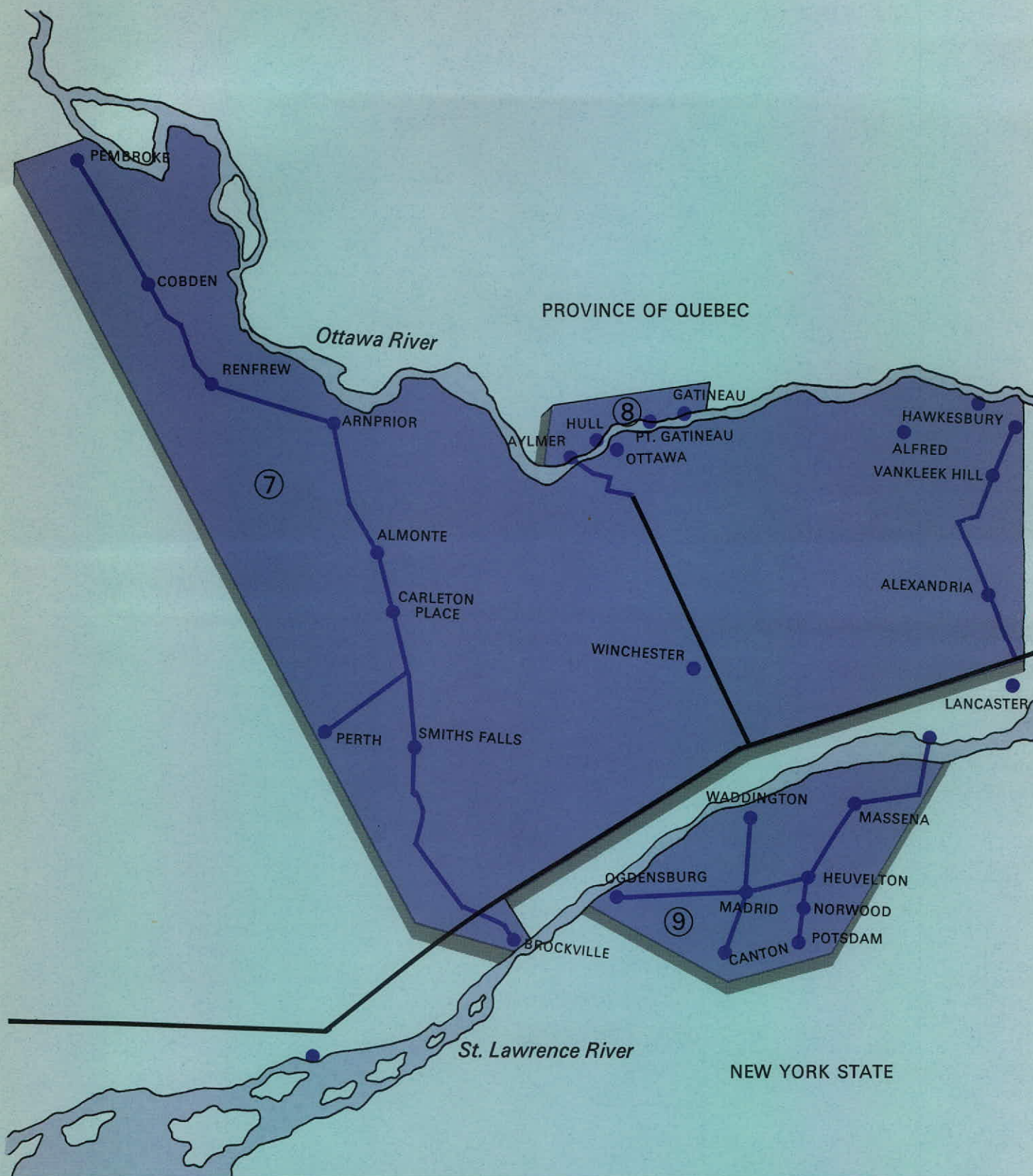
THE CONSUMERS' GAS SYSTEM

Consumers' Gas
AND SUBSIDIARIES
SERVICE AREA
SEPTEMBER 1973

- Community Served
- TransCanada PipeLines
- Consumers' Distribution System



	①	②	③
	Provincial Gas	West Central	Georgian Bay
Active Customers	1964 61,171	17,106	3,846
	1973 81,769	45,034	9,912
Sales Volumes (M.M.C.F.)	1964 19,862	6,018	1,495
	1973 41,418	25,737	5,537



④	⑤	⑥	⑦	⑧	⑨
North Central	Metro Toronto	East Central	Eastern Ontario	Gazifère de Hull	St. Lawrence Gas
6,792	194,408	11,430	12,305	4,031	4,867
16,217	238,944	21,298	19,455	5,716	9,050
1,479	38,505	2,536	5,919	2,065	1,904
6,198	150,187	9,374	15,826	1,426	5,528

Corporate Information

The Consumers' Gas Company

Incorporated under the laws of the Province of Canada March 23, 1848
and continued as if incorporated under the laws of the Province of Ontario

HEAD OFFICE

19 Toronto Street, Toronto, Ontario

REGISTRAR, TRANSFER AND DIVIDEND DISBURSING AGENT

Canada Permanent Trust Company
1901 Yonge St., Toronto 7, Ontario

REGISTRAR AND TRANSFER AGENTS

Canada Permanent Trust Company
in St. John's, Halifax, Charlottetown, Saint John,
Montreal, Toronto, Winnipeg, Saskatoon, Calgary and Vancouver
Bankers Trust Company
16 Wall Street, New York

TRUSTEE (BONDS)

3¾% First Mortgage Sinking Fund Bonds, Series A
5% First Mortgage Sinking Fund Bonds, Series B
5½% First Mortgage Sinking Fund Bonds, Series C
4.85% First Mortgage Sinking Fund Bonds, Series D (U.S. Funds)
8⅝% First Mortgage Sinking Fund Bonds, Series E
8% First Mortgage Sinking Fund Bonds, Series F (U.S. Funds)
8¾% First Mortgage Sinking Fund Bonds, Series G

Canada Permanent Trust Company
320 Bay Street, Toronto

TRUSTEE (DEBENTURES)

4¼%, 4¾%, 5½%, 5⅝%, 5¾%, 6%, 6½% and 8% Sinking Fund Debentures

Crown Trust Company
302 Bay Street, Toronto

TRUSTEE (DEBENTURES)

8⅛% Sinking Fund Debentures

National Trust Company, Limited
21 King Street East, Toronto

TRUSTEE (CONVERTIBLE DEBENTURES)

5½% Convertible Sinking Fund Debentures

The Royal Trust Company
Royal Trust Tower, Toronto-Dominion Centre,
Toronto, Ontario

TRUSTEE (U.S. BONDS)

5¼% First Mortgage Sinking Fund Bonds,
St. Lawrence Gas Company, Inc.

Bankers Trust Company
16 Wall St., New York

The Annual and a General Shareholders'
Meeting will be held at 12.00 noon, December
10, 1973 at the St. Lawrence Hall,
157 King St. E., Toronto, Ontario.

The principal operations of the Company are carried out through the following subsidiary and associated Corporate entities :

Natural Gas Operations	The Consumers' Gas Company Tecumseh Gas Storage Limited Société Gazifère de Hull, Inc. St. Lawrence Gas Company, Inc. Niagara Gas Transmission Limited Shorgas Limited
Oil and Gas Exploration Development & Production	Home Oil Company Limited Underwater Gas Developers Limited Sogepet Limited
Computer Operations	Consumers' Computing Limited T-Scan Limited
Other Operations	Consumers' Realty Limited Hunt Club Road Estates Limited Albion Road Estates Limited Cygnus Corporation Limited Community Antenna Television Ltd. Thio-Pet Chemicals Ltd.

The paper used in this report contains recycled fibre. This selection was made by Consumers' Gas as a contribution to the conservation of natural resources and to the protection of the ecology of Canada.

